House Budget Committee
Democratic Caucus
U.S. Rep. John Spratt ■ Ranking Democratic Member
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September 19, 2000

$240 Billion in Debt Reduction: A Number Without a Plan

Dear Democratic Colleague:

On *Meet the Press* September 10, Majority Whip Tom DeLay stated that the Republicans' new budget plan would devote $240 billion of the FY 2001 surplus, or 90%, to debt reduction. On the 13th, *Congress Daily* reported that Republican leaders intended to live within the plan by devoting $14 billion of the 2001 surplus to tax cuts and $13 billion to "BBA Medicare give-backs" and appropriations. The next day BNA listed four tax cut packages the Republicans are pushing as part of this plan.

A number of conclusions flow from the attached analysis. Among them are:

- Given CBO's $267.8 billion unified baseline surplus for 2001, a debt-reduction (surplus) target of $240 billion allows tax cuts and spending increases totaling $26.6 billion, and increased debt service costs of $1.2 billion, for a total of $27.8 billion.

- By the inventive use of timing shifts, tax and spending bills costing $26.6 billion in 2001 can be extremely expensive in the outyears. But the Republicans explicitly deny having targets for outyear costs; as a result, this "plan" is ultimately meaningless.

- Devoting 90% of the *outyear* unified budget surplus to debt reduction allows legislation costing $144 billion over five years and $327 billion over ten years, *far* less than the tax cuts advocated by Gov. Bush or congressional Republicans the past two years.

- Whether the Republican plan allows too little or too much for Appropriations this year depends critically on how much of the proposed $26.6 billion is used up on tax cuts and entitlement increases. But the first-year cost of the four specified tax cuts can range from $4 billion to $14 billion, and the Republican Leadership has put no price tag on BBA Medicare givebacks, possible additional farm relief, or other pending bills.

- The creation of this new $240 billion "plan" underscores the fact that the Republican budget resolution, which called for large and exploding tax cuts and for appropriations cuts below baseline, was unrealistic from the start.

- The President's Budget, the House Democratic budget alternative, and even the Republican budget resolution all reduced the debt *more* than the $240 billion "plan."

1) What does $240 billion in debt reduction imply?

In July, CBO projected the 2001 unified budget surplus at $267.8 billion. $240.0 billion is approximately 90% of $267.8 billion. So the new Republican $240 billion plan means that Congress would *cut the surplus* by about 10%, or $26.7 billion, from $267.8 billion to $240.0 billion.

Table 1: The $240 Billion Plan and CBO's July Surplus Projections for 2001

Unified budget surplus	$267.8 billion
Announced target under $240 billion plan	$240.0
Additional costs allowed by plan	$ 27.8

2) Excluding the Social Security and Medicare surpluses, the $240 billion plan saves only 60% of the remaining surplus.

While CBO's unified budget surplus for 2001 is $267.8 billion, it is only $70.3 billion once Social Security and Medicare (HI trust fund) are excluded, as required by "lockbox" bills the House has passed this year. Thus, the Republican plan saves $42.5 billion, or 60%, of the available $70.3 billion surplus.

3) A "90/10" approach will not work in the outyears.

If 90% of CBO's unified budget surplus is reserved for debt reduction over the period 2001-2010, then only $327 billion is left for the combination of tax cuts, Medicare provider payments and other entitlement increases, and Appropriations.

Yet the tax cuts passed by the House this session by themselves cost $748 billion over ten years. The Bush tax cuts costs at least $1.3 trillion over ten years, plus an additional $0.9 trillion if two percentage points of the payroll tax are diverted into private accounts. *This is why the Republican leaders intend to reserve 90% of the unified budget surplus **only** in 2001, not in the future.*

But the lack of any outyear targets means 1) the so-called $240 billion "plan" is not a meaningful budget, 2) it therefore provides no assurance to the public or the financial markets about debt reduction over the coming decade; and 3) the stress on the amount and percentage of *2001* debt reduction is meant to make Republicans appear virtuous, even though the Party has certainly not abandoned its appetite for large, potentially budget-busting tax cuts.

Table 2: Room for Legislation if 90% of Unified Budget Surplus is Saved
dollars in billions

	2001	**5 Years**	**10 Years**
Room for all legislation under a 90/10 plan	27	144	327
Cost of House-passed tax bills this Session	23	257	748

Focusing exclusively on the 2001 costs of legislation is the exact opposite of good budgeting practice. The present circumstances — in which the budget is currently in excellent shape but by the end of the decade will start coming under noticeable strain — argues that we should be especially concerned with the long-term costs of policies, not the first-year cash flow. A focus on the short-term is especially inappropriate given that this Congress has proved unusually adept at enacting timing shifts, delayed starts, and phase-ins.

4) Whether the $240 billion "plan" includes enough room to resolve Appropriations issues depends critically on how much of the $26.6 billion is used for other purposes.

Table 4 shows how much or little would be available for Appropriations under different assumptions about the first-year cost of tax cuts and entitlement increases. As can be seen, the results range from a very modest amount to an amount that implies a rapid increase in Appropriations outlays. In addition, it is not clear whether the Republican Leadership wants to use any extra room to fund Republican member projects — including defense projects in addition to those already funded in the enacted DoD appropriations bill. Neither is it clear whether the additional funds are to be used to meet the concerns of House Democrats, the President, and the Senate.

Table 3: Available for Appropriations Under Various Alternative Scenarios
FY 2001 outlays in billions of dollars

Available for legislation under $240 billion "plan"	26.6	26.6	26.6
Pension, business, telephone, and CRA[1]	3.7	9.0	14.0
Medicare give-backs[2]	3.7	3.7	5.0
Farm relief[2]	0.0	2.2	2.2
Remaining for Appropriations	19.2	11.7	5.4
Resulting level of appropriated outlays	656.8	649.3	643.0

It should be noted that, on September 13th, after announcing the $240 billion plan, the House Leadership attempted to override the veto of the marriage penalty bill. Since that bill cost an additional $15.3 billion in 2001 alone, it would have forced Appropriations to cut below CBO's baseline.

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[1] The figure of $9.0 billion for pension, business, telephone, and Community Renewal Act tax cuts is based on JCT estimates of the versions of the bills listed in the BNA of September 14. This includes the Senate version of the pension and telephone taxes, and the Hastert offer on small business taxes. If the House-passed version of these bills is used, the FY 2001 cost drops to $3.7 billion because of phase-ins and because the Speaker and the Senate include items not passed by the House. Alternatively, if all tax provisions are made effective immediately, the costs could reach $14 billion in 2001.

[2] There is not yet a bill increasing payments to Medicare providers ("BBA give-backs"), but the Administration's Mid-Session Review set aside $3.7 billion for that purpose in 2001 and $40.3 billion over ten years. Speculation is that the costs might be even higher. Also, there is not yet a bill to provide additional payments to farmers (beyond the two bills already enacted this session), but Senate speculation is that the additional relief may total $2.2 billion. Finally, it is not known what, if any, other entitlement bills will be enacted, but a number of bills that could total $1 billion in 2001 are pending.

Table 3 showed that the amount of outlays available for appropriated programs could range from $657 billion down to $643 billion, or even lower as the cost of entitlements rises. Table 4 shows other possible benchmarks for Appropriations.

Table 4: Outlays for Appropriated Programs, FY 2001

Republican budget resolution	$625 billion
House-passed appropriations through Sept. 18	631
President's Mid-Session budget (CBO estimate)	637
CBO baseline	638
If the 2001 growth rate = the 2000 growth rate	662

No matter how the $240 billion "plan" is interpreted, it allows higher Appropriations outlays than the Republican budget resolution, which the House has already breached. But the levels in that budget resolution were not realistic to begin with. In assessing the adequacy of alternative levels of appropriations, it must be remembered that the defense appropriations bill, already enacted, raises outlays $2.4 billion above baseline, and that increases for NIH, education, and some other purposes are very widely supported.

5) Who would be responsible for such a result?

Could a Republican Congress agree to such increases in appropriations? *This Congress already has*. A 2001 total of $643 billion — which Table 3 suggests may be what the Republican Leadership intends by the $240 billion "plan" — would equal a 3.4% increase in appropriated outlays from the 2000 level. This is not as big as the 7.3% increase in appropriated outlays from 1999 to 2000, which this Congress enacted.

Republicans are already prepared to attribute program increases to the President and Democrats in Congress. Of course, Republicans want to take credit for some of those very increases, as for example the increases in defense and NIH.

But history suggests that Republican rhetoric of spending restraint does not match reality, as shown by the graph on the right: over the last decade, the fastest increases in appropriated outlays have come when the Republicans controlled Congress. The slowest came when both the White House and Congress were Democratic. Table 5 makes the same point by calculating the average annual growth rate of appropriated outlays over various time periods.

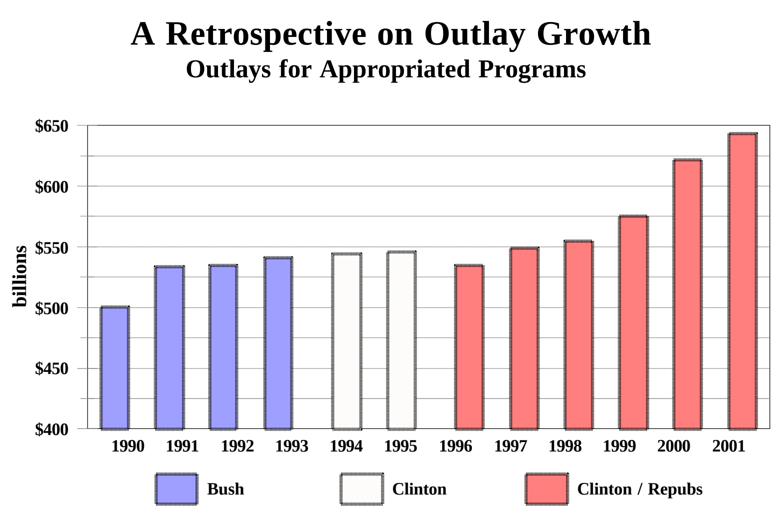


Table 5: Average Annual Growth Rate of Appropriated Outlays

Reagan-Bush Adm. (FY 1982-1989)	5.9%
Republican Congress (FY 1996-2001)[3]	4.2%
Bush-Quayle Adm. (FY 1990-1993)	2.6%
Clinton-Gore Adm. (FY 1994-2001)[3]	2.2%
Clinton-Gore w/ Democratic Congress (FY 1994-1995)	0.4%

6) The $240 billion "plan" encompasses *less* debt reduction than alternative plans.

The $240 billion "plan" dedicates 90% of the 2001 unified budget surplus, and 60% of the surplus excluding Social Security and Medicare, to debt reduction. Whether the remainder is used for tax cuts, program restorations and increases, or some combination, the $240 billion plan devotes ***less*** to debt reduction than the President's budget, the House Democratic alternative, or the Republicans' own budget in April.

Table 6: Uses of CBO's July Surplus Under Alternative Budget Plans
FY 2001, in billions of dollars

	Change from CBO Baseline Surplus		
	Revenues and outlays	% Used	% Saved
90/10 Plan	27.8	10%	90%
President's Budget*	14.0	5%	95%
Democratic Substitute	-3.0	-1%	101%
Republican Budget Resolution**	7.2	3%	97%

** Midsession Review as reestimated by CBO*
*** Includes partial use of Tax Cut Reserve Fund (Sec. 213 of the budget resolution) as announced July 20, 2000.*

7) History shows that the Republicans are the party of big debt.

Table 7, on the next page, briefly summarizes how the debt grew and then started shrinking over the previous two decades. Because of the huge tax cut enacted in the beginning of the Reagan administration, the debt quadrupled during the Reagan and Bush administrations. By the end of the Bush Administration, the debt had reached 49.5% of GDP, the highest level since Eisenhower was President. The 1993 Clinton-Gore budget bill stopped the hemorrhaging, allowing the debt-to-GDP ratio to decline in every year of their administration. The shrinkage accelerated as the 1993 budget bill and economic growth have turned deficits into surpluses.

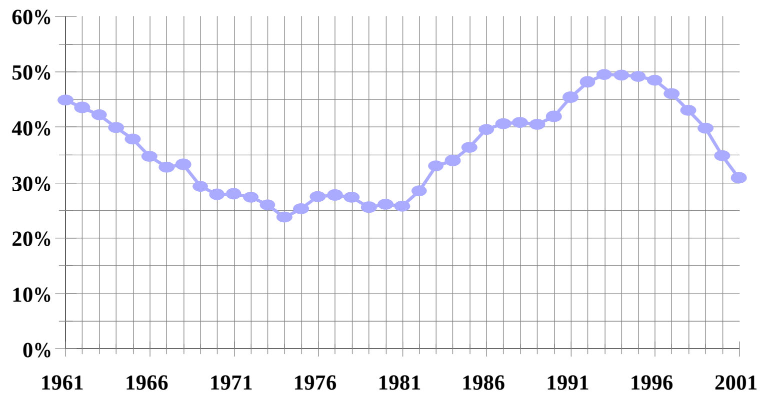
[3] Assuming appropriated outlays total $643 billion for 2001, as explained in section 4.

Table 7: Increases and Decreases in the Debt Held By the Public
dollars in billions

	Debt	Change in Debt		Debt as % of GDP
1789-1981	789			25.8%
1982-1989 Reagan/Bush	2,191	1,402	178%	40.5%
1990-1993 Bush/Quayle	3,248	1,058	48%	49.5%
1994-2001 Clinton/Gore*	3,198	-51	-2%	31.0%

** Estimate based on $240 billion "plan." Note that the debt would be* ***lower*** *under the alternative budgets discussed in the previous section.*

Debt Held by the Public
as a percent of GDP



If you have any questions about the foregoing analysis, please call the Budget Committee staff at 67200.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member